



DATE: October 10, 2016

TO: Mayor and City Council
City Manager

FROM: Diann Kirby, Community Services Director

RE: Golf Course Study Session Follow-up

Following the consultants' presentations on Bloomington's golf course operations and market assessment at the study meeting on September 19, the City Council requested follow-up information on several items. The purpose of this memo is to provide responses to the City Council's requests for additional information in the areas of budget and redevelopment of the former Hyland Greens driving range.

BUDGET

Internal charges

According to NGF Consulting, Hyland Greens is "not capable of paying for large internal overhead and the new capital investment needed to remain competitive." Attached is a spreadsheet showing the internal charges assessed to Dwan and Hyland Greens in 2015 and 2016 (*see attachment A*). The chart also includes a description of each charge. Dwan is being assessed internal charges of \$175,278 while Hyland Greens is being charged \$96,117 for a total of \$271,395 in 2016.

The City Council requested information on internal charges charged at other municipal golf courses. Staff conducted an informal survey of 11 metro area cities; 9 cities responded. Bloomington appears to be the most thorough in accounting for its costs of providing internal services among the cities surveyed. The survey responses are attached (*see Attachment B*).

Moving Hyland Greens into the General Fund

NGF Consulting recommended removing Hyland Greens from the Enterprise Fund and placing it in the General Fund. "Hyland Greens is not a true enterprise operation and should be considered as a recreational amenity for the community for developing new golfers and providing active, physical recreation for Bloomington residents, especially juniors," noted the consultant's report. "As a General Fund operation, Hyland Greens can become like other park uses with lower cost recovery, and not have a profit or 'break-even' requirement."

Finance staff researched the possibility of moving Hyland Greens from an Enterprise Fund to the General Fund. According to the Governmental Accounting, Auditing and Financial Report (GAAFR) Blue Book:

"GAAP provide that enterprise funds may be used to report any activity which a fee is charged to external users for goods and services... Enterprise fund accounting is designed to highlight the extent to which fees and charges are sufficient to cover the cost of providing goods and services. For that reason it often is used voluntarily for subsidized activities to highlight the cost of the subsidy."

Finance compiled the following list of advantages and disadvantages of moving Hyland Greens into the General Fund:

Pros:

- Based on NGF Consulting's report, moving Hyland Greens to the General Fund treats it like a recreational amenity so it won't appear that there should be a profit or break-even requirement.
- Hyland Greens would no longer be charged for interdepartmental support services, which totaled \$53,521 in 2016. However, related internal service fund charges of \$42,596 would remain.

Cons:

- Shifting Hyland Greens into the General Fund would be inconsistent with how the City accounts for other recreational facilities in the Enterprise Fund such as the Bloomington Family Aquatic Center, Bush Lake Beach and Bloomington Center for the Arts, which are all subsidized by property tax dollars.
- Moving Hyland Greens from the Golf Enterprise Fund to the General Fund would create a lack of transparency and camouflage the true costs of operating the golf course.
- The interdepartmental support services expenses no longer covered by Hyland Greens would still exist and would need to be reallocated across other funds.
- Hyland Greens would still be obliged to pay for certain internal charges such as equipment use – motor pool, information systems maintenance and replacement, insurance and bonds, telephone, mailroom, web and print shop. These charges totaled \$42,596 in 2016.
- Property tax support would likely continue to be needed to support Hyland Greens regardless of whether it was located in the Golf Enterprise Fund or General Fund.
- The golf courses are the only areas of the City that are not exempt from sales taxes. Golf courses are singled out by the Minnesota Department of Revenue as being different than parks or other recreational amenities because municipal golf courses are considered to be in competition with privately-held golf courses and therefore required to pay sales taxes. If Hyland Greens moved into the General Fund, it would be the only area in the General Fund that has to pay sales tax, which would make tracking and accruing sales tax more complex.
- Hyland Greens is in need of major capital improvements. These types of capital expenditures are not typically located in the General Fund because of volatility and property tax constraints from year to year.
- The General Fund does not normally expend budget for capital improvements such as a new clubhouse at Hyland Greens; such activity is normal in an Enterprise Fund.
- Purchases orders would become more complex as they would need to be split between two different types of funds (e.g., purchase of fertilizer for both golf courses that would have to be accounted for in two separate funds.)
- General Fund and Enterprise Funds have different accounting rules for capital assets. Any Hyland Greens assets that have not been fully depreciated would need to be fully expensed in the General Fund since the General Fund follows “modified accrual accounting” where assets are fully expensed at the time of purchase and not depreciated over the life of the asset.
- There are shared expenses between Dwan and Hyland Greens (such as salaries) that would need to be split between the General Fund and the Golf Enterprise Fund.
- The Parks and Recreation activities currently in the General Fund are not organized by different park locations in Bloomington. The activities are organized in categories such “Youth and Family” and “Adult Recreation.” Adding a new organizational code called “Hyland Golf Course” would be inconsistent with that structure.

Based on the issues noted above, staff recommends keeping Hyland Greens in the Golf Enterprise Fund and showing subsidized revenues from taxes similar to the Art Center and Aquatics funds.

REDEVELOPMENT OF THE FORMER HYLAND GREENS DRIVING RANGE

In order to provide a more sustainable future for the golf courses, the Hyland Greens Task Force recommended developing the east side of the golf course on the site of the former driving range. NGF Consulting studied this possibility and determined that the former driving range could be removed from the golf facility and developed as an alternate (non-golf) use without disrupting the existing course and driving range. Further, the consultant recommended that the City used a portion of the proceeds to undertake future capital improvement projects at Hyland Greens and Dwan.

At the study meeting on September 19, the City Council requested a timeline with the steps and processes that would have to be followed in order to market the Hyland Greens property. Planning staff have drafted a potential schedule for a requests for proposals (RFP) and rezoning process:

Draft Hyland Greens RFP Schedule

Month	RFP Track	Reguide/Rezone Track
Oct 2016	City Council guidance – study meeting	Commence access study to assist in Hennepin County access determination
Nov 2016	City Council guidance on RFP requirements and desired features – study meeting Demarcate sale line	Access study in progress
Dec 2016	Prepare RFP Survey of sale area	Determination from County on access
Jan 2017	Waiting for rezoning	Initiate rezoning
Feb 2017	City Council approves RFP Issue RFP	Notices sent out
Mar 2017	Proposers prepare responses	Planning Commission public hearing
Apr 2017	Proposers prepare responses	City Council public hearing Submit to Met Council
May 2017	Proposers prepare responses	Met Council review
June 2017	Proposals due Proposals reviewed	Met Council review
July 2017	City Council selects proposal(s) to pursue	Met Council final decision
Aug 2017	Negotiate purchase and development agreement(s)	
Sept 2017	City Council approves purchase and development agreement(s) Finalist(s) prepares development plans, plat and EAW	
Oct 2017	Finalist(s) prepares development plans, plat and EAW	
Nov 2017	Planning Commission reviews development plans, plat and EAW	
Dec 2017	City Council reviews development plans, plat and EAW	
Jan 2018	Closing	

The schedule notes that staff would be seeking City Council guidance on RFP requirements and desired features in November 2017. Staff would be looking for direction on the following items:

1. Whether and what to sell:
 - a. Don't sell
 - b. Sell 10 acres
 - c. Sell more than 10 acres
2. Whether to place restrictions on the property sale:
 - a. Height
 - b. Density
 - c. Affordability
 - d. Age restrictions
 - e. Ownership type
 - f. Building type (over/under, side by side or detached)
3. Sale approach options:
 - a. Bidding process (to maximize revenue)
 - b. RFP (to consider factors beyond price)

The City will want to rezone and re-guide the property in advance of an RFP or bidding process. Developers will want that hurdle removed. It should also be noted that it appears state rules require an Environmental Assessment Worksheet (EAW) for golf course conversions.

Normandale Boulevard Access

The City Council asked on September 19 about access off of Normandale Boulevard if the former driving range at Hyland Greens were to be developed. Staff discussed the possibility of Normandale access with Hennepin County when the Minnesota Golf Academy proposal was being considered two years ago. At that time, it was thought that a right-in/right-out access could be made to work along on Normandale, and that a three-quarter access (right-in, right-out, and left turns in) might also be likely. What was not determined was whether or not left turns out onto Normandale (to head north) would be acceptable. The City would need to undertake a study to answer that question.

Once the City narrows down the types of uses for the property, staff recommends hiring a consultant to conduct a small study of the Normandale access. The cost of that work is expected to be approximately \$5,000. For now, though, staff are reasonably confident the case could be made to the County for a right-in, right-out access.

One question Hennepin County would likely want answered is why the City couldn't take access off of 102nd Street. Understanding that there are wetlands on the southeast corner of the property, an ideal configuration might be a right-in/right-out off of Normandale, and then an additional driveway off of 102nd Street.

Transit Access

The City Council asked for information on bus routes that serve Hyland Greens. Route 597 provides rush-hour bus service on Normandale Boulevard past Hyland Greens. Routes 589 also provides rush-hour service on the north and west sides of the golf course. A local bus route, Route 539, can be accessed several blocks north at Normandale Village. A map of Bloomington's transit routes is attached (*see Attachment C*).

Land Sale Proceeds

During the study meeting on September 19, the City Council asked staff to identify how proceeds from the sale of the 10.5 acres at Hyland Greens would be dedicated. According to the market research report, potential sale prices were as follows:

- A. Single-family: \$1.5 million to \$1.75 million
- B. Townhome only: 80 units = \$1.58 million to \$1.84 million
- C. Townhome/multi-family mix: 40 unit townhomes + 125 unit multi = \$2.54 million to \$2.92 million
- D. Multi-family only:
 - i. 210 units @ 20/acre = \$2.94 million to \$3.36 million
 - ii. 420 units @ 40/acre = \$5.88 million to \$6.72 million

There are several options for the use of the land sale proceeds. One alternative is to carry the operational loss at Hyland Greens for as long as possible to see if it can break even. Another option would be to use a portion of the proceeds to undertake capital improvements at both golf courses. NGF Consulting identified \$554,000 in immediate needs at both courses. Below is a list of the capital improvement recommendations:

Bloomington Golf Courses Immediate Physical Improvement Needs

Immediate Needs	NGF Estimated Cost
Dwan	
Clubhouse repair/upgrade	\$200,000
Pond re-lining	80,000
Tree improvements	30,000
Technology enhancements	20,000
Wash station/pad	15,000
Subtotal	\$345,000
Hyland Greens	
Driving range enhancements/lighting	\$189,000
Technology enhancements	20,000
Subtotal	\$209,000
Total	\$554,000

Of the improvements recommended by NGF Consulting, the most potentially lucrative is the \$189,000 enhancement to the driving range. According to the consultant, the range could be expanded lengthwise (to the north) to incorporate an unused gap at the north end of the range between the practice area and the fourth hole. NGF Consulting estimated that it would cost \$67,500 to add a 25 x 50 yard tee to the area. Another enhancement recommended by the consultant was to install muted ground lighting that would allow the range to be open at night. The estimated cost for this improvement was \$36,000. The consultant also noted that the 30 yards of range depth is not sufficient to support a full 30-day rotation of tee space. As a result, he suggested adding depth by installing fill and then re-surfacing the expanded tee area with suitable turf at a cost of \$86,400.

In 2015, the driving range posted \$113,117 in revenues. If the \$189,000 in driving range improvements were implemented within the next year, the increase in revenues could pay for the improvements within six to 10 years.

NEXT STEPS

The City Council has the following options and decisions to make with respect to the golf courses.

- A. Continue with the current arrangement: Continue to operate Dwan and Hyland Greens as a City facility and cover future losses with property tax subsidies. Consider implementing immediate capital improvements as recommended by the golf consultant in an effort to improve the bottom line.
- B. Move forward with a land sale: Sell the 10.5 acres of property on the east side of Hyland Greens and use the proceeds to carry operational losses at the golf courses as long as the proceeds are available or until a viable alternative is found to at least break even.
- C. Explore a contractual arrangement with an outside vendor: The City has been approached by a private vendor that provides a combination of fitness and golf within one facility. Staff will be conducting a site visit in October to meet with the vendor and tour its operations in order to determine if this might be a viable option for Hyland Greens.
- D. Close down Hyland Greens for business: If the City Council wishes to consider this option, staff recommends conducting neighborhood meetings, open houses and other public engagement strategies to solicit thoughts and opinion on next steps for the property.

The City Council is requested to provide direction on which avenue(s) they would like staff to pursue and supply guidance on next steps.

Attachments:

- A) Internal Charges Budget Report
- B) 2016 Municipal Golf Internal Charges Survey
- C) Bloomington Transit Map